

**ECONOMIC EXPANSION
AND
ENVIRONMENT IMPROVEMENT FINANCING**

**The State Treasurer is Chairperson of the California Industrial Development
Financing Advisory Commission and the California Pollution Control
Financing Authority**

California Industrial Development Financing Advisory Commission (CIDFAC)¹:

The CIDFAC Act enables every city and county in the state to create an Industrial Development Authority (IDA) which may issue tax-exempt and taxable industrial development bonds (IDBs) to finance manufacturing businesses. CIDFAC provides technical advice to local IDAs and independently reviews IDB applications for compliance with federal and state statutes and public benefit provisions (such as job creation), and approves the sale of IDBs by local authorities. Small businesses use IDBs to finance capital expenditures over the useful life of the assets.

Industrial development bonds are private debt sold to private investors. The local issuing authority and the State of California have no liability for the debt. Tax exempt bonds are sold to private investors. Interest paid on the bonds is exempt from federal and state income taxes. The committee can also approve IDBs, which exempt interest earnings from state income taxes.

Tax-Exempt Bond Financing Tax-exempt IDBs can be issued for a maximum of \$10 million in any public jurisdiction in a six year period; the total outstanding IDBs for any company cannot exceed \$40 million nationwide. IDBs can be used for land acquisition, building renovation or construction, and equipment purchases. Tax-exempt bonds also require approval from the California Debt Limit Allocation Committee (CDLAC).

In all IDB financings, the seller of the land, building and/or machinery and equipment has a controlled source of repayment. The borrower finances fixed assets with long-term financing at attractive rates (currently 3-4% floating and 9-11% fixed). A commercial bank issues a stand-by letter of credit for the total amount of the bond issue. Banks can facilitate expansion of their customer's businesses through a fee-producing letter of credit commitment rather than a short-to-medium-term borrowing-a mechanism that limits the customer's working capital availability.

Taxable Bond Financing The interest earned on taxable IDBs is not exempt from federal income tax, but is exempt from California income tax. The principal amount of taxable bonds can not exceed \$50 million per issue. The maximum amount of taxable bonds issued in California each year for all borrowers can not exceed \$350 million. Unlike tax-exempt bonds, taxable bonds do not need CDLAC approval. Taxable IDBs can be used for land acquisition, building construction and renovation, purchase of equipment, refunding or refinancing outstanding debt, and to provide working capital. CIDFAC issued its first taxable IDB on

¹ California Government Code, Sections 91500-91574

November 20, 1996 for \$25,900,000 at a weekly variable interest rate of 5.43% for a twenty-five year term, the IDBs were issued to finance a warehouse facility.

Equipment Only Purchase Program The CIDFAC tax-exempt Equipment Only Purchase Program (EOPP) is designed to assist small manufacturing businesses. The first EOPP financing was issued on December 18, 1996. The lease financing process is simple and easy to use. Usually equipment acquisition can be funded within 30 days of investor approval. The program provides fixed-rate tax-exempt interest rates of approximately 6.5-7.5%; variable interest rates of 5-6% may also be available. Generally, 100% of the equipment cost, installation, and out-of-pocket expenses can be financed. Equipment can be financed over its useful life-usually five to seven years. Out-of-pocket expenses are limited to application fees, state fees and bond counsel fees, which are usually 1 % or less, depending on the actual size of the equipment financing.

Federal Enterprise Bonds CIDFAC issued the first Federal Enterprise Bond on September 19, 1996 in the City of San Diego for \$3,000,000. Enterprise Zone Bonds ("EZBs") are tax-exempt bonds issued for businesses located within federally designated enterprise communities. Six locations in California are designated as federal enterprise zones: Imperial County, City of San Diego, City of Oakland, City of Watsonville, South Central Los Angeles, and Hunters Point in San Francisco. EZBs can be used to finance both manufacturing and commercial projects. Eligible capital expenditures include land acquisition, equipment purchases, construction and renovation of buildings. EZBs are limited to \$3 million per project and \$20 million per borrower nationwide. EZBs require CDLAC approval and at least 85% of the businesses' activity, trades and services must be conducted within the enterprise zone; also, at least 35% of the business' employees must be residents of the enterprise zone.

IDB financing expands California's economy and creates new jobs in various industries with the most effective cost-to-risk relationship available.

The California Pollution Control Financing Authority (CPCFA)²:

CPCFA was created by state legislation in 1972 to approve and issue tax-exempt and taxable bonds to provide funds for private businesses seeking to purchase and install pollution control and reduction equipment and processes. CPCFA bonds are usually secured by land, buildings and/or equipment and "guaranteed" by a bank letter of credit. Bond principal and interest payments are the obligation of the private borrower. The State of California or any local government or agency is not liable for the bonds. The interest from tax-exempt CPCFA bonds is exempt from California and federal income taxes; and interest from taxable CPCFA bonds is exempt from California income tax. The bonds are attractive to California businesses and investors; borrowers can reduce interest rates by 3-5% and investors can increase after-tax yields by 2-3%.

² California Health and Safety Code, Sections 44500-44563

In 1996, CPCFA was the fifth largest issuer of municipal bonds in the country. The Authority approved and issued over \$1.6 billion in taxable and tax-exempt bonds for pollution improvement in Contra Costa, Los Angeles, Orange, San Bernardino, San Diego, and San Joaquin counties. The bonds financed a state-of-the-art sewage treatment facility in Van Nuys, modification of water furnishing facilities, and retooling refineries for the production of low emission fuels. Users of CPCFA bonds include refuse collectors, recycling centers and material recovery processors, with sales from \$5 million to \$60 million and 12 to 150 employees.

Eligible Projects for Bond Financing CPCFA promotes investment in California by private businesses seeking to purchase and install established state-of-the-art pollution control and reduction technologies. CPCFA can issue bonds to finance projects which help abate, eliminate, prevent, control or reduce any form of pollution of the earth, air or water, solid or liquid waste disposal, thermal or noise pollution or radiation contamination. Projects for solid waste disposal or resource recovery may include elements which provide for development of landfills, new refuse removal or transfer vehicles or equipment, transfer stations, resource recovery or energy conversion plants, source separation, or any solid or liquid waste disposal facilities involved in resource recovery systems. *Currently, only solid waste disposal projects, sewage treatment facilities and water furnishing facilities qualify for tax-exempt financing*

Bond proceeds can pay for virtually all costs incurred by the private borrower for the project, including: land and any interests in property; buildings; fixtures; machinery, equipment, and furnishings; landscaping; all costs for architects, engineers, surveyors, attorneys, permits and other incidental costs; and all costs of the financing and issuance of the bonds. An eligible project may be the construction of a new facility, expansion of an existing facility, rehabilitation or replacement of part or all of an existing facility or its equipment, or acquisition and installation of new equipment.

Small Business Assistance Program

To assist small businesses in California, fees received from CPCFA private activity bond financing are placed in a Small Business Assistance Fund ("SBAF"). The fund assists small businesses by making access to capital more affordable through various forms of financial assistance. Financial assistance from SBAF may include paying the costs of the bond issuance, paying costs for credit enhancement, guaranteeing debt service, or subsidizing interest rates. (Note: Not all such forms of assistance will be given to any one applicant.) SBAF assistance can be utilized with both tax-exempt and taxable bonds, or other small business financing programs. Businesses must have fewer than 500 employees to be eligible for SBAF assistance.

California Capital Access Program (CalCAP) The CalCAP program is a small business assistance program funded by SBAF which encourages financial institutions to make loans to small businesses that fall just outside of most banks' conventional underwriting standards. CalCAP insures bank loans to assist growing small businesses whose operations have an impact on the environment. The maximum loan amount is \$2.5 million. CalCAP loans can be short or long-term, have fixed or variable rates, be secured or unsecured with flexible amortization

schedules. All terms and conditions of CalCAP loans are set by the lender, including the points paid to enter the program.

In 1996, 351 loans totaling over \$40,000,000 were made to small businesses throughout California. Businesses which received CalCAP loans include clothing manufacturers, automotive parts and repair shops, general contractors, trucking companies, agriculture and farming businesses, circuit board manufacturers, plastics producers, and roofing, siding and sheet metal manufacturers.

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